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## **Income growth in Arizona rises at slowest pace in U.S.**

PHOENIX — Personal income in Arizona rose at a slower rate between 2006 and 2007 than any other state.

New figures Wednesday from the U.S. Bureau of Economic Analysis puts per capita income last year — total income divided by population — at \$33,029. That is up just 3.4 percent from the prior year, compared to a 5.2 percent increase nationwide. The result is that Arizona has slipped one notch, to 40th in the nation, in personal income. In 2000, the state was ranked 37th.

Economists said some of the slide is attributable to the fact that much of Arizona's population growth includes children and teens who are not in the workforce: They don't bring in any money but are part of the computation of per capita income. And Arizona also has a fair share of retirees who are not working.

But that doesn't explain all of it. Some of the relatively slow growth likely can be attributed to the fact that job growth here has been in positions that pay below the national average.

That is backed up by the state's own statistics of what jobs pay, a figure that takes into account only those people who actually are working: Between 2005 and 2006, later figures are not yet available, the average wage of hourly workers went up just 3.6 percent. And the increase for salaried workers posted a 3.7 percent gain.

And some of it simply comes down to the fact that Arizonans are willing to work for less. Part of that, according to economist Tracy Clark, is the "sunshine factor." People move to Arizona because they like the environment.

Clark, associate director of the JPMorgan Chase Economic Outlook Center at Arizona State University, said that, in turn, leads to the second half of the problem.

"Any time you have a large labor pool that keeps getting more people in it, it's just a supply issue," he said. "So you don't have to pay quite as much to attract the people."

Economist Dan Anderson who works for the Arizona Board of Regents, said population growth does figure into the slide. He said people coming to Arizona are hired at the bottom of the pay scale.

But Anderson said the state's personal income was at least 90 percent of the national figure in the 1970s through at least the mid 1980s. What happened since then, he said, can be partly attributed to a conscious decision by state and economic development leaders of how to market the state.

"There was interest in making Arizona the low-cost producer," he said. "We would attract people because it would be less expensive to do business here."

Anderson said that might have been OK when Arizona was competing only against other states. But he said it makes no sense in a global economy.

"You sure don't want to compete with many other countries on salary or costs," Anderson said. "They will beat us every time, forever."

Anderson said there is beginning to be a recognition that Arizona needs to become “the highest value-added” state, proving to companies that while it costs so much to do business here, that is more than outweighed by the benefits.

Urias said the state has been moving to change its economy. She said there has been a big push to attract science and high tech companies which generally tend to have better-paying jobs.

But state Treasurer Dean Martin said business costs do matter and only so much can be done until the state's tax structure changes.

Martin said Arizona, like many states, lost manufacturing jobs when the economy went soft in 2001. But he said only about half of those have returned.

He blames some of that on the state's property tax system, where companies pay not only higher rates than residential property but they also have to make annual payments based on the value of their equipment. Martin said the property tax burden on businesses is the third or fourth highest in the nation, compared to 25th for residential.

“That hits the break-even point for the operation,” he said.

Martin said the only reason Arizona landed a new \$3 billion Intel fabrication plant is that it got a special tax assessment ratio which cut its payments by 80 percent.

That tax structure, said Martin, is what results in Arizona having a relatively high number of jobs in the financial services sector where “it's just a desk, a telephone and a computer.”

Not everyone believes things are as bad in Arizona as the numbers would suggest.

Elliott Pollack who runs a Scottsdale-based economics and real estate consulting firm, said he is not surprised by BEA figures showing Arizona's personal income as 40th in the nation. What he questions is the report's contention that income in the state rose slower here than anywhere else.

“It's hard to believe we were the weakest state in the country,” he said, especially compared with states like Michigan.

Pollack speculated that the per capita income figures are skewed because they are based on population estimates. He said if the number of Arizonans is actually less than the Census Bureau's estimate that would raise the figure.

#### Arizona Personal Income

	2007	2006	2005
Total in billions	\$209.4	\$196.9	\$180.9
Per capita	\$33,029	\$31,936	\$30,386
National rank	40	39	38
% of U.S. per cap.	85.5%	87.0%	87.4%

By Howard Fischer  
Capitol Media Services